Compliance with laws and regulations

Local Government: Municipal Finance Management Act of South Africa

The financial statements were not prepared in accordance with applicable legislation

22. Contrary to section 122(1) of the MFMA, the municipality did not prepare financial statements which fairly presented the results of its operations at 30 June 2010, as material adjustments were made to disclosures in terms of irregular expenditure and commitments.

Municipal SCM Regulations

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

23. Contrary to Municipal SCM Regulation 22, competitive bids were not advertised for at least 30 days.
24. Contrary to Municipal SCM Regulation 17(1)(c), goods and services of a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations and the deviation was not approved by delegated authority.
25. Contrary to Municipal SCM Regulation 43(1), quotations were accepted from providers who failed to provide proof from SARS that their tax matters are in order.
26. Contrary to Municipal SCM Regulation 28(1)(a)(ii), the preference points system was not applied in the procurement of goods and services through competitive bids.

Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)

27. The municipality amended the contracts of certain service providers without complying with the requirements of section 116(3) of the MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and Municipal SCM Regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
29. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

30. The accounting officer has not exercised oversight responsibility over financial reporting, compliance with laws and regulations and internal controls..

MANDENI MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Note	2010 R	2009 R
ASSETS			
Current assets			
Cash and cash equivalents	1	31,889,417	14,214,091
Trade and other receivables from exchange transactions	2	6,895,985	28,383,165
Other receivables from non-exchange transactions	3	1,977,828	811,454
Inventories	4	304,589	271,307
VAT receivable	14	1,241,407	3,664,651
Non-current assets			
Property, plant and equipment	7	51,790,905	39,560,328
Investment property carried at cost	9	80,165	80,165
Total assets		**94,180,296**	**86,985,161**
LIABILITIES			
Current liabilities			
Trade and other payables from exchange transactions	11	3,328,057	1,371,556
Consumer deposits	12	993,012	933,028
VAT payable	13	1,546,869	3,724,359
Current provisions	15	2,689,523	1,799,537
Current portion of unspent conditional grants and receipts	16	16,348,664	9,238,544
Current portion of borrowings	17	196,386	209,785
Non-current liabilities			
Non-current borrowings	17	134,454	330,840
Total liabilities		**25,236,966**	**17,607,650**
Net assets		**68,943,330**	**69,377,512**
NET ASSETS			
Housing development fund		1,504,439	1,394,440
Accumulated surplus / (deficit)		67,438,891	67,983,072
Total net assets		68,943,330	69,377,512

MANDENI MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2010

		Note	Other reserves	Housing reserve	Accumulated Surplus/(Deficit)	Total: Net Assets
			R		R	R
Balance at 30 June	**2008**		**56,667,700**	**1,215,149**	8,033,533	65,916,382
Changes in accounting policy		35.1	(56,667,700)		56,667,700	-
Correction of prior period error					355,912	355,912
Off -setting of Accummulated Depreciation					-17,699,081	(17,699,081)
Restated balance			-	**1,215,149**	**47,358,064**	**48,573,213**
Correction of prior period error					-79,045	(79,045)
Interest Capiatalised			-	179,291		179,291
Capitalisation of Grants that met condition on Assets					13,339,102	13,339,102
Assets Disposal					-114,448	(114,448)
Surplus / (deficit) for the period					7,479,404	7,479,404
Balance at 30 June	**2009**		-	**1,394,440**	**67,983,076**	**69,377,516**
Correction of prior period error					440,514	440,514
Interest Capiatalised				109,999		109,999
Capitalisation of Grants that met condition on Assets					13,496,919	13,496,919
Surplus / (deficit) for the period					-14,481,619	(14,481,619)
Balance at 30 June	**2010**		-	**1,504,439**	**67,438,891**	**68,943,330**

2.5 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

3.2 SUBEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amoritisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	15

5 INVENTORIES

5.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

5.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

6 FINANCIAL INSTRUMENTS

6.1 INITIAL RECOGNITION

Financial instruments are intitally recognised at fair value.

6.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilties carried at amortised cost.

7 INVESTMENTS IN ASSOCIATES

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.

The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year.

The municipality commences accounting for an investment in an associate from the date that significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

8 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

9 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

10 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

11 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

13 REVENUE

13.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

15 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

The following are defined benefit plans :Natal Joint Superannuation,Retirement and Provident Funds (NJMP) . These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail. Current contributions by Council are charged against expenditure on the basis of current service costs. Full actuarial valuations are performed at least every five years. The last valuation was done on 31 March 2006.

16 CONSTRUCTION CONTRACTS AND RECEIVABLES

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by *completion of a physical proportion of the contract work*.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

	Note	2010 R	2009 R

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

Cash on hand	11,676	7,720
Cash at bank	3,277,798	(524,580)
Call deposits	28,599,943	14,730,951
	31,889,417	14,214,091

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

First National Bank - Mandeni Branch: Account Number 52940480587

Cash book balance at beginning of year	(524,580)	5,359,523
Cash book balance at end of year	3,277,798	(524,580)
Bank statement balance at beginning of year	113,575	1,954,167
Bank statement balance at end of year	3,245,879	113,575

Current Account (Other Account)

Bank	Branch	Account	Type	Purpose		
FNB -	Mandeni Branch:	Acc./No. C061294217372	Call Deposit	Surplus funds	6,129,957	4,013,643
FNB -	Mandeni Branch:	Acc./No. C062028673219	Call Deposit	Housing Account	2,039,279	2,073,995
FNB -	Mandeni Branch:	Acc./No. C062113325882	Call Deposit	Camera Account	216,005	11,426
FNB -	Mandeni Branch:	Acc./No. C062138398327	Call Deposit	MIG Account	3,737,929	3,550,534
FNB -	Mandeni Branch:	Acc./No C062252919471	Call Deposit	NDPG Account	11,060,607	
Standard Bank-	Mandeni Branch	Acc./No. 068637527002	Call Deposit	Surplus funds	24,004	23,530
Nedbank-	Mandeni Branch:	Acc./No. 23581136/9998	Call Deposit	Surplus funds	5,392,161	5,057,822
Cash book balance at beginning of year					14,730,951	3,197,824

55,236,721	(26,853,556)	28,383,165

	2010 R	2009 R
Rates: Ageing		
Current (0 – 30 days)	(1,626,275)	
31 - 60 Days	721,077	
61 - 90 Days	1,007,459	
91 - 120 Days	630,525	
121 - 365 Days	6,885,749	
+ 365 Days	36,111,223	
Total	**43,729,758**	-
Electricity: Ageing		
Current (0 – 30 days)	182,687	
31 - 60 Days	(46,402)	
61 - 90 Days	117,158	
91 - 120 Days	(15,145)	
121 - 365 Days	386,392	
+ 365 Days	1,063,526	
Total	**1,688,217**	-
Refuse: Ageing		
Current (0 – 30 days)	114,462	
31 - 60 Days	250,279	
61 - 90 Days	221,841	
91 - 120 Days	208,076	
121 - 365 Days	1,434,203	
+ 365 Days	16,804,701	
Total	**19,033,561**	-

Insurance claims	137,259	101,086
Subsidies	1,004,000	471,500
Housing rental	40,230	40,230
Other debtors	796,339	198,638
Total Other Debtors	**1,977,828**	**811,454**

4 INVENTORIES

Opening balance of inventories:	**271,307**	**195,577**
Consumable stores - at cost	204,635	118,477
Maintenance materials - at cost	66,672	77,100
Additions:	**953,488**	**1,026,870**
Consumable stores	565,643	930,197
Maintenance materials	387,845	96,673
Issued (expensed):	**(920,485)**	**(950,910)**
Consumable stores	(536,869)	(843,810)
Maintenance materials	(383,616)	(107,100)
5 **Write-down / (reversal of write-down) to Net Replacement Value (NRV) or Net Replacement Cost (NRC):**	**279**	**(229)**
Consumable stores	279	(229)
Maintenance materials	-	-
Spare parts	-	-
Other goods held for resale	-	-
Closing balance of inventories:	**304,589**	**271,307**
Consumable stores	233,688	204,635
Maintenance materials	70,902	66,672

6 **INVESTMENTS**

Deposits	-	23,530
Call investments	-	5,057,822
Transfer of call investments to Cash and cash equivalents		
Deposits		(23,530)
Call investments		(5,057,822)
This represents the change on the disclosure for Investments	-	-